

ORIGINAL



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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: July 2, 2007

RE: STAFF REPORT FOR THE APPLICATION OF GLOBAL TEL*LINK CORPORATION FOR AUTHORIZATION TO ENCUMBER AND/OR MORTGAGE ITS ASSETS. (DOCKET NO. T-02871A-07-0094)

Attached is the Staff Report for the application of Global Tel*Link Corporation for authorization to encumber and/or mortgage its assets. Staff recommends conditional approval.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 11, 2007

EGJ:AII:tdp

Originator: Alexander Ibhide Igwe

Arizona Corporation Commission
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Docket No. T-02871A-07-0094

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**GLOBAL TEL*LINK CORPORATION
DOCKET NO. T-02871A-07-0094**

**APPLICATION FOR AUTHORIZATION TO ENCUMBER AND/OR MORTGAGE ITS
ASSETS**

JULY 2, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for the application of Global Tel*Link Corporation, Docket No. T-02871A-07-0094, was the responsibility of the Staff members listed below. Alexander Ibhade Igwe was responsible for the financial review and analysis. Trish Meeter researched the Consumer Service issues in this proceeding.

A handwritten signature in black ink, appearing to read 'Ibhade Igwe', with a long, sweeping horizontal stroke extending to the right.

Alexander Ibhade Igwe
Executive Consultant III

A handwritten signature in black ink, appearing to read 'Meeter', with a stylized, cursive script.

Trish Meeter
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
GLOBAL TEL*LINK CORPORATION
DOCKET NO. T-02871A-07-0094**

On February 9, 2007, Global Tel*link Corporation filed an application with the Arizona Corporation Commission for authorization to encumber and/or mortgage its Arizona assets as security for certain debt financing up to \$250 million. The Applicant states that the loan proceeds will be utilized to refinance its existing higher costs debt obligations; provide liquidity for service expansion and enhance its ability to effectively engage in competitive activities. Also, the Applicant proposes to distribute approximately \$45 million of the loan proceeds to its parent company, GTEL Holdings, Inc., which in turn, will distribute same for redemption of preferred stock, payment of dividend on common stock and contribution to employee equity incentive plans.

Global Tel*link Corporation is a Delaware corporation certificated to provide pay telephone services in Arizona, pursuant to Decision No. 59429, dated December 20, 1995. The Applicant is a wholly owned subsidiary of GTEL Holdings, Inc., which in turn is owned by The Gore Group, LLC.

Staff's finds that the Applicant's proposal to utilize a portion of the loan proceeds for repayment of its existing higher cost debt obligations, for service expansion in Arizona, and participation in competitive activities, are in the public interest. Staff finds that the Applicant's proposal to distribute approximately \$45 million of proposed loan proceeds to its parent company, for redemption of preferred stock and payment of dividend on common stock, might not be in the public interest. However, Staff's concern is somewhat mitigated by the fact that the Applicant provides competitive services in Arizona. In the event that the Applicant defaults on its debt obligation, its customer could readily procure similar services from alternate providers. Also, the prospective lender is a sophisticated investor, with pertinent knowledge and experience in financial and business matters to evaluate the merits and risks of its investment. Finally, customer deposits and prepayments will be excluded from its encumbered assets or protected by a performance bond/irrevocable sight letter of credit.

Based on the above analysis, Staff recommends Commission approval of the Applicant's request to encumber and/or mortgage its Arizona assets as security for debt financing in an aggregate amount no greater than \$250 million. Staff further recommends that the Commission order GTL to procure a performance bond or an irrevocable sight draft letter of credit, which is excluded from the pledged collateral, in an amount no less than the balance of customer deposits and prepayments.

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Introduction

On February 9, 2007, Global Tel*link Corporation ("GTL" or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") seeking authorization to encumber and/or mortgage its Arizona assets in connection with certain debt financing arrangements. GTL proposes to borrow up to \$250 million, consisting of secured credit facilities and term loan agreements.

Public Notice

On March 7, 2007, GTL published a notice of its financing application in the *Arizona Republic*. A copy of the notice is attached.

Background

GTL is a Delaware corporation certificated to provide interstate and international services pursuant to the authority granted by the Federal Communications Commission ("FCC"). The Applicant provides competitive telecommunications services, especially payphones and inmate only services, throughout most parts of the United States. In Arizona, GTL was certificated to provide pay telephone services pursuant to Decision No. 59429, dated December 20, 1995.

GTL is a wholly owned subsidiary of GTEL Holdings, Inc. ("Holding"), which in turn, is owned by The Gores Group, LLC ("Group"). The Group is comprised of three Delaware limited partnerships, with investment interests in the technology and telecommunication sectors as well as in private equity funds.

The Transaction

GTL seeks Commission approval to participate in a series of debt financing. Specifically, the Applicant seeks Commission authorization to pledge and/or mortgage its Arizona assets as security for certain debt financing in an aggregate amount of up to \$250 million. The proposed debt financing will be comprised of both revolving long-term credit arrangements and term loan components. The Applicant states that it will procure the proposed debt financing at favorable terms and that a portion of the proceeds will be utilized to liquidate its existing higher costs debt. Also, GTL states that the proposed financing arrangements will enable it achieve the following objectives: "(a) substantially increase the ability of Applicant to substantially expand its operations in Arizona; (b) allow a one time distribution by the Applicant to Holdings, the proceeds of which are applied by Holdings to (i) pay a deferred redemption amount on Holdings preferred Stock, (ii) to pay a dividend on Holdings common stock, and (iii) to contribute to the Applicant's equity incentive bonus plan, which shall be paid by the Applicant to the eligible employees participating in the plan through normal payroll procedures, (c) fund

potential acquisitions, and (d) provide Applicant with the financial resources necessary to compete effectively with other service providers in Arizona.”¹

The Applicant states that the proposed debt financing arrangements serve the public interest. GTL contends that the transactions will enhance its ability to continue to provide uninterrupted services as well as effectively compete in Arizona. Also, the Applicant claims that it does not anticipate that the proposed transactions will negatively impact its day-to-day operations in Arizona.

Financial Analysis

A.R.S. §40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility’s act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Staff finds that the Applicant’s proposal to encumber its Arizona assets may not inhibit its ability to continue to serve Arizona customers. In the event that the Applicant defaults on its debt obligation, its customer could readily procure similar services from alternate providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff finds that GTL’s proposal to utilize a portion of its new debt financing to: (a) extinguish existing higher costs long-term debt obligations, (b) expand its operations in Arizona, and (c) generate sufficient resources necessary to effectively compete with other service providers in Arizona, are in the public interest. However, Staff is concerned about Applicant’s proposal to distribute a portion of the debt proceeds to Holdings, its parent company, for (i) payment of deferred redemption amount on Holdings preferred stock, (ii) payment of dividend on Holdings common stock, and (iii) contribution to Applicant’s equity incentive bonus plans, are neither in the public interest nor consistent with sound financial practices. The Applicant states in its response to Staff’s data request, that approximately \$25 million has been distributed to shareholders while \$20 million was utilized for the redemption of preferred stock. The Applicant argues that “The distribution was a return on the original capital invested in the business and reflects the strong performance of the business. In privately owned companies, these types of distribution are not uncommon. The debt providers were completely aware that a portion of the loan proceeds were being used for this purpose, but that the remaining assets and cash flows of the business were sufficient to service the debt”². Staff agrees with GTL that the prospective lender is a sophisticated investor with sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of its investment. Second, the Applicant’s customers have alternate service provider choices to mitigate any inconvenience that

¹ GTL’s application – Page 4, Lines 8 – 15

² GTL’s response to Staff data request AII-1(1)

may result from its inability to provide service. Finally, GTL's Arizona assets constitute only 1% of its assets.

Based on the above analysis, Staff recommends approval of the Applicant's request to encumber and/or mortgage its Arizona assets as security for debt financing in an amount no greater than \$250 million. Staff's concern regarding the Applicant's proposal to distribute a portion of its loan proceeds for dividend payment and redemption of preferred stock is mitigated by the availability of service from alternate providers. As indicated in the recommendation section of this report, Arizona customer deposits and prepayments will be protected by exclusion from the pledge assets or procurement of performance bond/irrevocable sight letter of credit.

Consumer Services and Compliance Issues

Corporations Division of the Commission reports that GTL is in good standing.

A search of the Consumer Services database starting January 1, 2004 through February 23, 2007 indicates that the Applicant had no complaints, inquires or opinions.

Recommendations

Staff recommends approval of GTL's request for authorization to encumber and/or mortgage its Arizona asserts as security for debt financing up to \$250 million.

Staff recommends that the Commission order GTL to procure a performance bond or an irrevocable sight draft letter of credit, which is excluded from the pledged assets, in an aggregate amount no less than the balance of customer deposits and prepayments. Staff recommends that GTL file proof of the performance bond or an irrevocable sight draft letter of credit in Docket Control, within 60 days of the effective date of the decision in this proceeding

Staff further recommends authorizing the Applicants to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER – CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

**IN THE MATTER OF THE APPLICATION
OF GLOBAL TEL*LINK CORPORATION
FOR AUTHORIZATION TO
ENCUMBER AND/OR MORTGAGE ITS ASSETS**

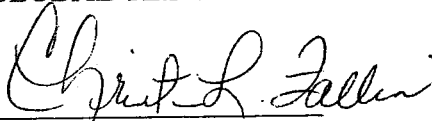
Docket No. T-02871A-07-0094

**NOTICE OF FILING OF
AFFIDAVIT OF PUBLICATION**

GLOBAL TEL*LINK CORPORATION hereby submits an original and thirteen (13)* copies of the affidavit of publication from The Arizona Republic as verification that the public notice in this matter was published in this newspaper on the date specified.

RESPECTFULLY SUBMITTED THIS 16TH DAY OF MARCH 2007.

GLOBAL TEL*LINK CORPORATION



Christa L. Fallin
Legal Assistant to
Lance J.M. Steinhart
Attorney for GLOBAL TEL*LINK CORPORATION

THE ARIZONA REPUBLIC

STATE OF ARIZONA }
COUNTY OF MARICOPA } SS.

PUBLIC NOTICE OF FILING OF AN APPLICATION FOR GLOBAL TEL*LINK CORPORATION TO: FOR AUTHORIZATION TO: ENCUMBER AND/OR MORTGAGE ITS ASSETS.
DOCKET NO. T-02871A-07-0094
GLOBAL TEL*LINK CORPORATION ("Applicant") filed an Application with the Arizona Commission ("Commission") on February 9, 2007, seeking authorization to allow Applicant to encumber and/or mortgage its assets in connection with certain debt issuance financing arrangements. The application is available for inspection during regular business hours at the office of the Commission located at 1200 West Washington Street, Phoenix, Arizona 85007 and at the office of Applicant's legal counsel, Lance J.M. Steinhart, P.C. 1720 Windward Concourse, Suite 250, Alpharetta, GA 30005.
The Commission may grant the application without a hearing. If you have any questions concerning this Application, have objections to its approval, or want information on intervention, you may contact the Consumer Services Section at 1200 West Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000.
The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request reasonable accommodations such as a language interpreter, as well as request this document in an alternative format, by contacting Linda Hogan, ADA Coordinator, Hogan, ADA Coordinator (602) 542-3931, E-Mail: lhogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.
Published: March 9, 2007

Robert Lane, being first duly sworn, upon oath deposes and says: That he is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

03/09/2007

[Handwritten Signature]

Sworn to before me this
15TH day of
March A.D. 2007



KAREN WAY
Notary Public - Arizona
Maricopa County
Expires 08/31/09

[Handwritten Signature: Karen Way]

Notary Public